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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 019660

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SUBJECT: CENTRAL PARTY SCHOOL PROFESSOR SAYS RURAL REFORM
MOVING IN A NEW DIRECTION

REF: BEIJING 4224

Classified By: ACTING MINISTER COUNSELOR FOR ECONOMIC AFFAIRS CHRISTOPH
ER BEEDE; REASON 1.4(B) AND (D)

SUMMARY

¶1. (C) A researcher at the Central Party School said that a recent conference on rural reform has important implications for rural policy. The Central Government in recent years has pursued a micro approach to rural development, emphasizing the livelihoods of individual farmers. The announced third phase of rural reform, however, is to be more macro in nature. The researcher said this represents government recognition that governance must be fixed at local levels, or there will be little hope of improving livelihoods in rural areas. He sees changes to rural reform policy as a natural step following the Central Government's elimination of the agricultural tax. The researcher acknowledged that there are many unanswered questions about the ability of county governments to implement effective policies and provide social services. END SUMMARY.

¶2. (C) BIO NOTE: Niu Xianfeng, whose informed views are reported in paras 5 and thereafter, is a professor at the Central Party School specializing in China's rural economy. He currently is in the United States on an International Visitor's Program (IVP) grant. In addition to his research at the Central Party School, Niu previously served as a Vice Mayor in Chongqing Municipality. END BIO NOTE.

PREMIER: MOVING RURAL REFORM TO THE NEXT PHASE

¶3. (U) A two-day conference on rural reform, chaired by Premier Wen Jiabao, closed on September 2, with the Premier declaring that China is entering a third phase of reform. The Chinese Government will continue to deepen existing reforms and implement financial reforms at local government levels, Wen said. According to media reports, the next phase of rural reform will build on the Central Government's New Socialist Countryside initiative and focus on institution-building and governance.

¶4. (U) The next phase of rural reform will shift away from the Central Government's previous emphasis on raising individual farmer incomes, the state-controlled media

reported. Wen reportedly stated that policies focusing on rural incomes, which included the Central Government's elimination of the agricultural tax, were launched in 2000 as the second phase of rural reform after the first phase's establishment of the household responsibility system from 1978 to 2000.

IMPORTANT IMPLICATIONS FOR FARMERS AND POLICIES

15. (C) According to Niu, the Wen-chaired conference has very important implications for rural reform in China. The Central Government in recent years adopted a micro approach to rural development, attaching importance to improving the livelihoods of individual farmers, he said, but the announced third phase of rural reform would be more macro in nature, executed from the vantage point of a bird's eye view over local governments. The new phase represents recognition on the part of the Central Government that unless it fixes governance at local levels, there is little hope of improving livelihoods in rural areas, Niu said.

16. (C) According to Niu, the shift to the next phase of reform likely indicates that rural policy, which has been named in the Number One Document as the Central Government's policy priority each of the last three years (see reftel), likely will not be the target of next year's Number One Document. Instead, he said he expects the Central Government to focus on social ills, including poverty, disease, and crime, and to address improving governance as a policy prescription for solving these problems. These problems and solutions are not confined to rural areas, said Niu, so he believes that rural policy will not be the Central Government's top policy priority in 2007.

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SHIFTING THE FOCUS TO THE COUNTIES

17. (C) Niu stated that his first-hand experience confirms other reports that county governments are under increased scrutiny to see how they respond to the Premier's call for improved governance at local levels. Niu said that he attended a conference in Gansu Province in March where the Central Government provided training to hundreds of county-level officials on implementing the New Socialist Countryside. In addition, Niu stated that there is a nationwide training session for county level officials currently underway with a goal of providing governance training to approximately 5,300 officials throughout the country. Niu noted that the Central Party School recently dispatched him to Heilongjiang Province, Hubei Province, the Inner Mongolia Autonomous Region, and Jiangsu Province to assess local governance capabilities and research county government provision of social services.

18. (C) According to Niu, the most important question for the Central Government in this effort is what can be reasonably be expected of county government officials with relatively low levels of education and few resources. Niu stated that China must fundamentally transform its governance structure into one in which the Central Government provides financial resources and local governments deliver services. He acknowledged, however, that such a transformation would be difficult in a financial environment where county governments often must overcome the burden of delivering 80 percent of the services with only 20 percent of the resources.

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